

**Statement of
The Honorable Allan Rutter
Federal Railroad Administrator
to the
Subcommittee on Transportation and Related Agencies
Committee on Appropriations
United States Senate
June 20, 2002**

Chairman Murray and members of the Subcommittee; intercity passenger rail service is facing its most significant financial challenge since the passage of the Rail Passenger Service Act in 1970 created the National Railroad Passenger Corporation – better known as Amtrak. Many in this room today face decisions that will have significant bearing on the short-term prospects of this form of transportation.

At the beginning of this fiscal year, Amtrak's management projected that 2002 would be another in a series of fiscally challenging years. In response to that assessment the Board of Directors directed management to cut sufficient costs from the company to assure that the Corporation could operate through fiscal year 2002 with available financial resources.

As we all now know, that effort has not been successful. Just recently, Amtrak's new President affirmed the need for Amtrak to borrow some \$200 million from a private line of credit by the end of June to meet current-year operating expenses or begin a process of shutting down operations for the remainder of the fiscal year. While drawing on this line of credit has been a part of Amtrak's 2002 business plan, Amtrak is facing significant difficulties in the private market to secure this facility. Amtrak has asked the Administration to review options that can help the company solidify access to this line of credit. The Administration has not completed review of Amtrak's recent application under the Railroad Rehabilitation and Improvement Financing Program for a loan guarantee to determine if Amtrak qualifies for assistance. However, we will work with Congress to review available options that can help put Amtrak on a more sound financial footing.

This is the second time in just over one year that Amtrak has asked Secretary Mineta and the Department of Transportation to save Amtrak from falling into a financial abyss. However, expending significant effort by the Congress and the Administration on an annual basis just in hope of assuring Amtrak's survival for another year is no way to run a railroad and reform is necessary.

In my testimony to this Subcommittee on March 7 of this year, I discussed the financial challenges facing Amtrak. The gap between Amtrak's expenses and revenues persists in the face of all manner of Amtrak initiatives to expand its business. Nationwide, market pressures from other modes impose a ceiling on Amtrak fares which cover only about half the Corporation's costs. Exacerbating Amtrak's financial picture is its

increasing debt load with debt service, both principal and interest requiring about \$250 million this year and even greater amounts in the future.

Madam Chairman, Secretary Mineta and the Department of Transportation believe that intercity rail passenger service can be an essential part of the Nation's transportation system if appropriately managed. However, the current business model for providing that service is unproductive, unsustainable and needs to be changed. This Subcommittee knows as well as the Department that positioning intercity passenger rail service for a successful future cannot be accomplished by merely authorizing funding at levels that far exceed the discretionary Federal financial resources available for transportation and will never be appropriated. Even if these funds were available, success could not be found by merely throwing billions of dollars at Amtrak as presently configured with just the hope that intercity passenger rail's problems will go away. Thirty years of experience should have taught us that a systematic rethinking of Amtrak's structure and public policy mandate is required. Positioning intercity passenger rail service for a successful future will require difficult choices and a commitment to develop a fiscally-sound workable model.

This morning, Secretary Mineta outlined the Bush Administration's view of the reform needed to move intercity passenger rail to such a mode. Rather than try to summarize the Secretary's remarks and risk leaving some important piece of information out of this testimony, I wish to insert in this testimony the Secretary's speech verbatim:

THE FUTURE OF INTERCITY PASSENGER RAIL
Secretary Norman Y. Mineta
U.S. Chamber of Commerce
Washington, D.C.
June 20, 2002

Purpose. I am here today to discuss the present state of intercity passenger rail and to outline a plan for creating a viable intercity passenger rail system in the United States.

Amtrak's Crisis. Today Amtrak faces a profound financial crisis. While this is not news, it is a relatively newfound consensus at Amtrak itself, and among its supporters in Congress. Some recent history and a few facts provide useful context.

Just over a year ago, as a newly confirmed Secretary of Transportation, I reluctantly approved Amtrak's request to mortgage its key access rights to New York's Penn Station. That transaction was urgently required to meet Amtrak's payroll, a precondition for survival to the end of the fiscal year. In retrospect, that transaction was the last-gasp breath of a fiction – the fiction that Amtrak could achieve operational self-sufficiency by its statutory deadline of December 2002. By December of 2001, the

Amtrak Reform Council had rendered a similar judgment, which upon publication had the unavoidable consequence of making Amtrak's financial condition even more challenging.

Congress created Amtrak in 1970 as a for-profit corporation. From this inception, policymakers have had an expectation that has proved elusive -- the hope of operating a national passenger rail system with modest federal support. Congress has made successive attempts at re-establishing this original premise, but the last three decades have proved that the Amtrak's model of a national network of passenger rail is just not sustainable without massive, continued federal support.

To maintain the fiction that it could be self-sufficient and without making fundamental reform, over the past five years Amtrak sold, leased and mortgaged valuable assets to meet operating expenses. During the same period, it lacked adequate funds to maintain its capital infrastructure. A capital backlog of over \$6 billion is the result. Just recently, Amtrak's new President affirmed the need for Amtrak to borrow some \$200 million from a private line of credit by the end of June to meet current year operating expenses or begin a process of shutting down operations for the remainder of the fiscal year. The Administration is reviewing the viability of options for how Amtrak can solidify access to this line of credit, and Federal Railroad Administrator Allan Rutter will be testifying this afternoon before the Senate Appropriations Committee to report on those deliberations more fully at the conclusion of today's testimony. We are reviewing ways to preserve the opportunities for Congress and the Administration to adopt significant reforms to our national passenger rail policy, principles of which will be outlined in these remarks.

Unfortunately, Amtrak management have compounded problems for the railroad. Until recent months, Amtrak lacked fundamental financial controls even to determine the extent of route cross-subsidizations. Amtrak's performance was insufficiently transparent to the Congress, the Department of Transportation and the public. It has embraced numerous business plans -- including some that have set it in competition with the freight railroads, upon whose tracks Amtrak operates on all routes outside the Northeast corridor. These plans have in large part been unsuccessful, and in the end, proved incapable of stemming a tide of red ink.

De-linking Passenger Rail and High Speed Rail. At the same time, Amtrak's supporters in the Congress and the states have forged an *ad hoc* alliance with advocates for numerous high speed rail projects that could easily cost over \$200 billion over the next 20 years. Amtrak has enjoyed monopoly access to the freight rail tracks upon which most high speed rail projects would presumably run. Supporters of Amtrak and of high speed rail have thus sought common cause. Legislation creating various means of bond financing, now under Congressional consideration, reflects this strategy -- to intertwine inextricably the needs of Amtrak and high speed rail.

The first recommendation I make today is that we must have the clarity of mind and discipline to decide how and where to fund and operate intercity passenger rail while separately deciding whether to fund and operate high speed rail. It would be a great disservice to perpetuate the assumption that Amtrak's future and that of high speed rail are necessarily intertwined.

Importance of Intercity Rail. I want to make sure that my remarks about Amtrak's failed business model and its financial crisis are not misunderstood. In a long career in Congress and now as Secretary of Transportation, I have not wavered from an important conviction: intercity passenger rail service is an important part of the Nation's transportation system.

The terrible events of last September 11th dramatically reaffirmed that fact, as passengers of grounded airlines surged to Amtrak. Amtrak is now carrying more passengers in the New York to Washington market than the air shuttles combined. I am encouraged by recent decisions of the Board of Directors of Amtrak to improve financial controls and to streamline the Amtrak management structure. These are welcome reforms. But there is so much more needed.

Systematic Reform. Some who share my conviction about the potential of intercity passenger rail have made a further, unwarranted assertion--that Amtrak's problems can be fixed simply by a massive infusion of federal dollars. The Bush Administration rejects that assertion. The country can ill afford to throw billions of federal dollars at Amtrak and just hope its problems disappear. Thirty years' experience should teach us that merely hoping for better performance is a doomed approach. Systematic, root-and-branch rethinking of the Amtrak's structure and its public policy mandate is needed.

We offer our ideas as a contribution to the current public debate about Amtrak funding and reauthorization. We hope to broaden the debate, while providing a benchmark for gauging the acceptability of various prescriptions now being offered by Congress for an ailing intercity passenger rail system.

Five Principles for Reform. The Administration's five principles for reform are:

1. Create a system driven by sound economics.
2. Require that Amtrak transition to a pure operating company.
3. Introduce carefully managed competition to provide higher quality rail services at reasonable prices.
4. Establish a long-term partnership between states and the federal government to support intercity passenger rail service.
5. Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.

I will say a few words about each.

Create a system driven by sound economics. First, we believe that our intercity passenger rail network must transition to a system dictated by fundamental economics without Federal operating support. Prices and passengers – and not politics – should drive service.

Amtrak's current route network provides too many services with limited market appeal at high operating costs to the federal government. These operating subsidies are almost universal among all routes, and are marked by escalating operating costs that absorb federal support. While some in Congress are suggesting that federal operating subsidies must be a fundamental precept of intercity passenger rail, we do not agree. At the same time, we recognize that it is unlikely that Amtrak could sustain a complete suspension of operating subsidies in 2003, so a phased reduction to zero operating subsidies is necessary.

Require that Amtrak transition to a pure operating company. Second, Amtrak should transition into a pure operating company. We believe a gradual separation of train operations from infrastructure ownership would shed better light on the true economics of passenger rail and help the public sector make better educated decisions about the future of intercity passenger rail, choices which more accurately reflect challenges and market opportunities. What I am talking about today is an Amtrak dedicated to operating passenger rail services for profit, but not responsible for investment in and maintenance of the passenger rail infrastructure.

Only in the Northeast Corridor does Amtrak combine an operating mission with a track infrastructure maintenance function. Yet since its trains account for only about 20 percent of corridor traffic, Amtrak's main operational focus in the corridor is on controlling and maintaining that infrastructure. Throughout the remainder of the Amtrak system, the freight rails are responsible for all track infrastructure investment.

Introduce carefully managed competition to provide higher quality rail services at reasonable prices. Third, we must introduce market principles into intercity passenger rail services. The Transportation Department has provided extensive details about the fact that high unit costs undermine Amtrak's competitive position relative to other passenger modes. Indeed, currently less than one percent of all U.S. trips over 100 miles is by rail. We firmly believe that marketplace discipline could deliver higher quality service at competitive prices. This would entail competition for provision of certain routes, through a process that would assign passenger rail operating rights to a single operator in a corridor after a careful process overseen by the Federal Railroad Administration. We also see possibilities for alternative sourcing of system-wide support services such as reservations, food service and equipment maintenance, much as other transportation companies have done.

Some proposals not only fail to make progress in this direction, they actually make competition more difficult to achieve. A sustainable intercity passenger rail system must

behave more like other private-sector transportation firms that move fixed costs into variable ones.

States outside the Northeast Corridor – where Amtrak currently runs on freight rail tracks – would be the first to transition to a system where intercity passenger rail services involve more competition under strict federal supervision to maintain high safety standards and prevent capacity problems. The Northeast Corridor, with its unique issues and historic role of the federal government as the owner of the right-of-way, would make the transition to reform at a slower but still certain pace.

Establish a long-term partnership between states and the federal government to support intercity passenger rail service. Fourth, we believe a new intercity passenger rail policy should be based on a strong foundation of state and federal planning that clearly identifies costs, benefits and funding approaches of passenger rail, designs services that complement and connect to other passenger modes, and thinks through practical implementation problems -- such as environmental and operational issues -- before launching projects.

We need to build our passenger rail network on a foundation of a partnership with the States. Today, many states are investing in intercity passenger rail, supporting operating costs of routes, funding new rolling stock, or assisting in the expansion of rail capacity to permit increased passenger operations. Several regions would like to consider upgrading their networks to accommodate high-speed intercity passenger rail.

The initiative for developing and operating any such new intercity passenger rail services should rest with the states or combinations of states. In planning and establishing such regional services, the states should be able to work with the federal government in a long-term partnership to invest in passenger rail infrastructure. We support the need for an ongoing federal role in capital funding in partnership with states.

We also note that many high-speed rail plans lack the comprehensive justification that marks current state/federal transportation planning at the metropolitan and statewide level. Congressional efforts to increase federal capital funding –do not pay sufficient attention to the critical importance of planning and entrusting state and local transportation agencies with the management of these programs.

We believe that clear-eyed, comprehensive, financially responsible transportation planning, which is mandated for other surface transportation modes, is crucial to the future of new forms of passenger rail. Unless states are real partners in these endeavors, passenger rail advocates may champion services and facilities that may not fit within overall state transportation plans.

Create an effective partnership , after a reasonable transition, to manage the capital assets of the Northeast Corridor. I also believe that the ownership, management and control of the Northeast Corridor must be carefully evaluated. The

multiple states and corridor users need time to identify practical solutions to these issues.

It will take extensive coordination – and a deliberate approach – to assess the mechanisms appropriate to manage this vital national asset. How will capital costs be allocated? How can the federal government and states assure that necessary capital investments will be funded? How is the capital backlog addressed? What is the best ownership structure to represent the multi-state interests? How do we adequately protect rights of access for transit? How will freight be moved on the corridor and what special needs does it have? These and many other such issues will be among the matters I plan to raise with our many stakeholders.

We may wish to consider a group modeled after the Defense Department's base realignment commission to finalize details of such a transition. During the transition, Amtrak would continue to operate the corridor. But perhaps at some intermediate juncture, it should be required to do so through a separate corporate entity formed for that purpose. Again, our goal should be to find lasting solutions to the thirty-year capital investment problem. This will take time, to be sure. But the job must be done.

Expanding the Debate: An Invitation to Stakeholders. I recognize that reform along these lines will impact many different parties, and all stakeholders must be prepared to accept change if we are to develop a viable system of passenger rail. I want to invite these stakeholders to participate in the process of developing the details of a reform plan consistent with the general principles I have just set forth.

Our nation's governors and the states they lead are major participants in developing and implementing public infrastructure investments. So it should come as no surprise that a central element of the Administration's vision entails a partnership with the nation's governors and other state and local leaders to support intercity passenger rail. To promote a systematic deliberation about these important issues, today I invite the National Governors Association to appoint a Governors' task force to work with me to develop the details of this partnership. In particular, I also invite the Northeastern Governors to work with me on core corridor infrastructure issues.

We must also recognize the importance of forging equitable business relations with a private freight railroad industry that owns the majority of the rail tracks on which Amtrak runs. In recent years, the freight railroads have begun to face significant capacity issues that strain both passenger rail and freight rail. From Amtrak's perspective, its on-time performance is significantly affected by access delays not within Amtrak's control. The next authorization for intercity passenger rail -- and plans for high speed rail expansion -- must balance equitably the interests of passenger and freight rail operators. And we should consider further the impact of reform on Amtrak's workers.

For these reasons, the Federal Railroad Administration will soon sponsor an industry policy seminar to explore more carefully with Amtrak, the freight rails, rail labor and other stakeholders the issues raised by reauthorization. Proceedings of this meeting will be made available to policymakers and the public.

Making Incremental Improvements: The Perfect is the Enemy of the Good.

It will not be possible to solve the accumulated problems of thirty years in a single year. It would be folly, however, to wait any longer to make a start.

That is why last summer I called for early consideration of authorization for intercity passenger rail. The Bush Administration undertook an extensive evaluation of the core problems at Amtrak, and has formulated key principles for reform that I described here today. I am now personally persuaded that more debate and further consultation with transportation policymakers are needed. A full five-year authorization seems unlikely this year.

The vision I have outlined for the ongoing debate is incremental, yet would bring fundamental change. I look to the past to understand the challenge we face in the future, not to cast blame or stir rancor. Our long term vision would incorporate definitive performance milestones in a new authorization. It would impose statutory discipline and accountability in moving toward a viable system of intercity passenger rail service. It would preserve and strengthen a national asset.

Congress is presently considering passenger rail policy. I announce these principles today so that any Congressional action will be measured against this vision for the future. The Administration is concerned about recent Congressional actions that would increase funding for Amtrak without addressing any of the core problems that have produced this crisis. We believe this is the wrong approach. For this reason, the Administration opposes FY 03 Amtrak funding in excess of the \$521 million in our budget unless such an increase is accompanied by significant reforms consistent with the principles I have outlined.

If Congress is unable to enact longer term reauthorization for Amtrak this session, we feel strongly that any short-term authorization should include significant steps toward more systematic reform. This afternoon, Administrator Rutter can begin a process by which we engage Congress in identifying the reforms we believe should be made, including: increasing financial accountability, federal oversight, and performance standards; limiting growing federal operating subsidies; and mandating pilot projects in commercializing route services and train operation support services.

Let me close by reiterating that the moment has arrived to make fundamental, lasting changes in U.S. passenger rail policy. Such changes will no doubt engender resistance. In the past, such resistance has left us with unfulfilled hopes and timid policy-making.

I believe it is time to recognize the role that intercity passenger rail service can play in America's transportation system, to offer a comprehensive vision for the future of intercity passenger rail, and to set out a proposal that offers an alternative to the previous thirty years of Amtrak history – a vision worthy of a passenger rail system that plays a sustainable role in the national transportation network. I have tried to set forth core elements of such a vision here. The Bush Administration looks forward to refining this vision and discussing the implications of these policies with interested stakeholders.

Thank you for your attention.

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Secretary Mineta's remarks set forth an ambitious agenda to place intercity passenger rail service on a sound footing for the future. The Secretary, I and the rest of the Department of Transportation team look forward to working with the Congress to achieve that goal. I would be happy to answer any questions you may have.

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